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SUBJECT: RECORD PRICES AND INVESTMENT PROPELLING COLOMBIAN
MINING SECTOR

REF: A. (A) BOGOTA 570

[1](#)B. (B) BOGOTA 1127

[1](#)1. (SBU) SUMMARY: Bolstered by external demand, domestic security gains, and pro-investment terms, Colombia's mining and hydrocarbon sector has experienced an unprecedented increase in investment and exploration activities. Petroleum production has reached a six-year high while coal and natural gas production are at record production levels. Meanwhile, foreign investment and new bloc offerings by the GOC are driving exploration efforts at the fastest pace in Colombian history. Exploration in non-fuel mineral, such as gold and uranium, has experienced a similar boom. END SUMMARY.

High Prices and Improving Conditions Drive Production

[1](#)2. (U) In an April 25 interview with leading economic daily Portafolio, Minister of Mines and Energy Hernan Martinez characterized Colombia as experiencing a "revolution" in its mining sector as a result of high commodity prices, a strong global demand outlook, and strong inflows of investment in the sector. All three factors, as well as increased access to exploration areas due to improved security, have fueled mineral and hydrocarbon exports over the last year.

[1](#)3. (SBU) According to Colombia's statistical agency, DANE, mineral sector exports (including hydrocarbons) reached USD 13.9 billion in 2007 or 46 percent of total exports. Revenues from 2007 exceeded those in 2006 by 19 percent. So far in 2008, export revenues in the sector have grown an additional 75 percent in comparison to the same period in 2007 and totaled 54 percent of total exports. Similarly, the Colombian Central Bank reported in April that approximately one-half of Colombia's record USD 9 billion in foreign direct investment (FDI) in 2007 went to the mineral/hydrocarbon sector. Representatives from producer companies and the GOC tell us the increased investment derives from not only higher commodity prices, but also improved security in exploration areas and pro-investment policies by the GOC (ref A).

Oil: Aggressive Exploration

[1](#)4. (SBU) The petroleum sector has demonstrated the clearest trend, with new inflows of FDI and new investment by partially privatized national hydrocarbons company Ecopetrol reversing a long-term decline in exploration efforts. Current daily production has risen to 570,000 barrels per day (bpd), Colombia's highest rate since 2002. So far most of the production increase has derived from squeezing more oil

from mature fields, but new exploration efforts have ramped up in the last year. According to the Colombian National Hydrocarbons Agency (ANH) the number of new wells drilled in 2008 will reach 90, up from only 21 in 2004. The 2008 estimate represents the highest annual total of new wells in Colombian history. The GOC auctioned nine offshore blocs in late 2007 and has begun the process for auctioning as many as 150 onshore blocs later this year. The prospective blocs lie near the Venezuelan border and the GOC believes offer strong prospects for development of heavy oil deposits.

Coal: Ensuring Infrastructure to Increase Exports

15. (SBU) Colombian coal production has also boomed over the last year, driven by the same factors as the petroleum sector. The combined production of conglomerate Cerrejon mines, U.S.-based Drummond, and Swiss-owned Glencore, should reach 110 million tons by 2010, up from 38 million tons in 2000 (ref B). Representatives from all three companies tell us proven deposits are sufficient to maintain this level of production through 2030. Rather than discovering new deposits, all three companies have identified adequate transportation and port infrastructure as the primary export constraint for the sector. Likewise, the companies are currently engaged in discussions with the GOC regarding environmental requirements to shift to direct-loading port operations by 2010, which they fear could impact export capacity.

Opportunities in Natural Gas, Gold, and Uranium

16. (SBU) In addition to oil and coal, Minister Martinez and other GOC officials tout prospects in gas, gold, and uranium. Private sector firms, including Chevron and Drummond, have expressed to us confidence that Colombia has several strong prospective gas fields. Natural gas production has risen 18 percent already in 2008 to 862 million cubic feet according to ANH and the GOC expects several new offshore Caribbean wells to come online by the end of the year. Colombia began shipping gas via a new pipeline to Venezuela in January 2008 and recently announced plans to triple the original planned daily amount of 50 million cubic feet. Besides increased natural gas exports to Venezuela, the number of Colombian consumers using natural gas has nearly doubled since 2002 to 4.6 million (or roughly 10 percent of the population), creating for the first time in Colombian history a sizable domestic market for gas.

17. (U) Meanwhile, an influx of foreign firms, many of them Canadian, are actively pursuing exploration for gold and other minerals in Antioquia, Caldas, Choco, Santander, and Vaupes Departments. On May 12, Toronto-based Colombia Goldfields announced preliminary results of mining samples from the Zona Alta field in Marmato, Caldas, indicating deposits of up to 2.6 million ounces of gold. The company described the findings as the first step in confirming Marmato Mountain as a world-class gold deposit. In addition to gold exploration, the Mines and Energy Ministry has issued 26 licenses for uranium exploration since the beginning of 2007.

BROWNFIELD